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MEMORANDUM

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TO: Docket Control Center

FROM: Ernest G. Johnson
Director
Utilities Division

2007 DEC 20 A 10: 23

AZ CORP COMMISSION
DOCKET CONTROL

DATE: December 20, 2007

RE: REQUEST FOR EXTENSION OF COMPLIANCE DEADLINE FOR SANTA CRUZ WATER COMPANY AND PALO VERDE UTILITIES COMPANY (DOCKET NOS. W-03576A-04-0767 AND SW-03575A-04-0767)

In Decision No. 67830, dated on May 9, 2005, the Arizona Corporation Commission ("A.C.C." or "Commission") approved the application of Santa Cruz Water Company ("Santa Cruz") and Palo Verde Utilities Company ("Palo Verde"), collectively referred to as ("the Company"), for extension of its existing certificate of convenience and necessity.

As stated in Decision No. 67830, dated May 9, 2005, Santa Cruz was ordered to obtain ownership of seven specific wells within 365 days of the decision:

Arizona Corporation Commission

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- 1) Neely West Well.
- 2) Neely North Well.
- 3) Neely East Well.
- 4) Glennwilde #1 Well.
- 5) Glennwilde #2 Well.
- 6) Rancho Mirage #1 Well.
- 7) Rancho Mirage #2 Well.

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The original due date for verification of ownership of the above wells was on or about May 9, 2006.

On May 5, 2006, the Company filed a motion which included, among other items, a request for extension of time to Comply with the ownership on the Glennwilde #2 and Rancho Mirage #2 wells until May 5, 2008. On May 18, 2006, Staff filed its response, recommending an extension until September 30, 2007, rather than the Company proposed due date of May 5, 2008. The September 30, 2007 recommendation was ultimately upheld in a Procedural Order of the Commission dated January 24, 2007.

On September 28, 2007, the Company filed a further motion for extension of time to comply with the well ownership requirement in Decision No. 67830. Per the application, Santa Cruz has obtained ownership of each of the above wells with the exception of the Glennwilde #2 and Ranch Mirage #2 for which the Company requests an additional five year extension until December 31, 2012.

Glennwilde #2 and Rancho Mirage # 2 Wells

On Page two of the application, the Company discusses the issue of the remaining wells:

“Santa Cruz uses a three phase evaluation program for wells. Phase 1 involves a review of well records, while Phase II involves actual physical inspection and testing of the well. At the time of the hearing, Glennwilde #2 had been through Phase I. However, sufficient information did not exist at the time of the hearing to determine whether Glennwilde #2 and Rancho Mirage # 2 would be useful...”

“Later, the Phase II review showed that Glennwilde #2 was in poor condition structurally and testing revealed that it exceeded the allowed level (MCL) for nitrates. Thus this well was identified as being uneconomical and too technically challenging to rehabilitate. Subsequently, this well was abandoned and “platted over”, i.e. the well site has not been reserved on the final plat – rather the well site is included in one or more residential lots. Thus, Santa Cruz will have to purchase one or more residential lots. This complicates obtaining ownership of the well.”

As for the Rancho Mirage #2 well, the Company also stated the following in its application:

“The other well, Rancho Mirage, lies within an exception parcel to the Rancho Mirage development. As a result, it has yet to be released to Santa Cruz for continued evaluation. Presently, the well is operated by the Maricopa-Stanfield Irrigation and Drainage District (“MSIDD”) for agricultural use. However, it is anticipated that in the future, this well may be available as the area develops and agricultural land is taken out of service.

Finally, the Company points out that Santa Cruz “carefully evaluates all wells in the vicinity,” has “sufficient capacity for current demand” and has “future wells” that are intended as substitute wells for Glennwilde #2 and Rancho Mirage #2. Based on all of the above, the Company requests an extension of time to December 31, 2012 to demonstrate ownership of these wells.

Staff Recommendation

After reviewing the Company application, Staff does not agree that an extension of time is the appropriate remedy for this matter. Therefore, Staff recommends denial of the Company’s request for extension of time.

EGJ:BKB:lhbm

Originator: Brian K. Bozzo

Attachment

SERVICE LIST FOR: SANTA CRUZ WATER COMPANY
PALO VERDE UTILITIES COMPANY
DOCKET NOS. W-03576A-04-0767 AND SW-03575A-04-0767

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BEFORE THE ARIZONA CORPORATION COMMISSION

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2007 SEP 28 P 4: 15

AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
PALO VERDE UTILITIES COMPANY FOR AN
EXTENSION OF ITS EXISTING CERTIFICATE
OF CONVENIENCE AND NECESSITY.

Docket No. SW-03575A-04-0767

IN THE MATTER OF THE APPLICATION OF
SANTA CRUZ WATER COMPANY FOR AN
EXTENSION OF ITS EXISTING CERTIFICATE
OF CONVENIENCE AND NECESSITY.

Docket No. W-03576A-04-0767

MOTION FOR EXTENSION OF TIME

(Glennwilde Well # 2 and Rancho Mirage Well # 2)

Palo Verde Utilities Company ("Palo Verde") and Santa Cruz Water Company ("Santa Cruz")(collectively, the "Global Utilities") request that the Commission grant an extension of time to acquire ownership of Glennwilde Well # 2 and Rancho Mirage Well # 2 until December 31, 2012. Santa Cruz has more than sufficient capacity, and these wells are not needed at this time.

I. Background.

The Global Utilities have been granted several CC&N extensions in recent years. One of those extensions was granted by Decision No. 67830 (May 5, 2005). In that decision, the Commission imposed numerous compliance conditions, including that Santa Cruz obtain ownership of 7 specific wells.¹ Those wells were Neely West, Neely North, Neely East, Glennwilde # 1, Glennwilde # 2, Rancho Mirage # 1 and Rancho Mirage # 2. Santa Cruz

¹ Decision No. 67830 (May 5, 2005) at page 11, lines 6 through 13.

1 subsequently obtained ownership of all of these wells, except for Glennwilde # 2 and Rancho
2 Mirage # 2. By Procedural Order, the deadline for obtaining ownership of Glennwilde # 2 and
3 Rancho Mirage # 2 is September 30, 2007.²

4 **II. The remaining wells.**

5 Santa Cruz uses a three phase evaluation program for wells. Phase I involves a review of
6 well records, while Phase II involves actual physical inspection and testing of the well.³ At the
7 time of the hearing, Glennwilde # 2 had been through Phase I. However, sufficient information
8 did not exist at the time of the hearing to determine whether Glennwilde # 2 and Rancho Mirage #
9 2 would be useful, as shown by the following testimony at the hearing by Santa Cruz's witness:

10 Q. And so at this point, at least with respect to the Glennwilde and Rancho
11 Mirage wells, you don't have enough data to be able to conclude whether
12 the wells would be worthwhile?

13 A. Correct....⁴

14 Later, the Phase II review showed that Glenwilde #2 was in poor condition structurally and
15 testing revealed that it exceeded the allowed level (MCL) for nitrates. Thus, this well was
16 identified as being uneconomical and too technically challenging to rehabilitate. Subsequently,
17 this well was abandoned and "platted over", i.e. the well site has not been reserved on the final plat
18 – rather the well site is included in one or more residential lots. Thus, Santa Cruz will have to
19 purchase one or more residential lots. This complicates obtaining ownership of the well.

20 The other well, Rancho Mirage # 2, lies within an exception parcel to the Rancho Mirage
21 development. As a result, it has yet to be released to Santa Cruz for continued evaluation.
22 Presently, the well is operated by the Maricopa-Stanfield Irrigation and Drainage District
23 ("MSIDD") for agricultural use. However, it is anticipated that in the future, this well may be
24 available as the area develops and agricultural land is taken out of service.

25
26 ² Procedural Order dated January 24, 2007 at 3.

27 ³ April 13, 2005 Hearing Transcript at 45-46.

⁴ April 13, 2005 Hearing Transcript at 47.

1 **III. Other wells owned by Santa Cruz.**

2 Of course, Santa Cruz has not limited itself to acquiring the specific wells required by the
3 Commission in Decision 67830. Instead, Santa Cruz carefully evaluates all wells in the vicinity,
4 so as to acquire the most economical and efficient wells. Santa Cruz also plans for growth and
5 ensures that its potable water capacity exceeds potable demand with ample room to spare. Santa
6 Cruz currently has four wells in operation, with a fifth well completed and awaiting final approval
7 (approval of construction) from ADEQ. Santa Cruz has also obtained additional wells. A
8 summary of existing and planned future wells is attached as Exhibit A.

9 A summary of Santa Cruz's potable water demand is attached as Exhibit B. As can be
10 seen, during the peak month, Santa Cruz had 14,225 customers, who used an average of 386
11 gallons per day. Thus, the peak month demand is 5,490,850 gallons. Santa Cruz's current well
12 capacity is 7,400 gallons per minute (gpm), which can produce more than 10.6 million gallons per
13 day. ADEQ calculates "firm capacity" by eliminating the largest water source, to ensure the
14 system can withstand an unanticipated failure. Santa Cruz's largest well is 2,300 gpm, leaving
15 5,100 gpm of firm production, which can produce more than 7.3 million gallons per day. This is
16 substantially more than the peak month demand of 5.4 million gallons. Moreover, Santa Cruz also
17 has 4 million gallons of storage. Thus, total daily capacity (storage + firm production) is 11.3
18 million gallons, against a demand of only 5.4 million gallons.

19 Therefore, Santa Cruz has more than sufficient capacity for current demand. Indeed, with
20 11.3 million gallons of firm capacity, Santa Cruz's current facilities can serve twice the number of
21 existing customers (an additional 14,000 new customers). Moreover, as shown on Exhibit A,
22 Santa Cruz has additional wells that will come on line in the future. Among the future wells are
23 two wells that are intended as substitutes for Glennwilde # 2 and Rancho Mirage # 2. The
24 substitute wells are known as Homestead East and Homestead West. Deeds and well registration
25 records showing that Santa Cruz owns these replacement wells are attached as Exhibit C. As
26 noted in the Staff Report, the capacity of the Rancho Mirage and Glennwilde wells were not
27

known at the time of the hearing.⁵ Thus, Staff did not rely on any particular flow rate for those wells in its capacity analysis. A comparison of the capacity of the replacement wells to Rancho Mirage # 2 and Glennwilde # 2 follows:

Well	GPM	Replacement Well	GPM
Rancho Mirage # 2	Unknown	Homestead West	850
Glennwilde # 2	1,200	Homestead East	1,200

Thus, Santa Cruz has already acquired replacement wells for the two wells at issue. In addition, Santa Cruz exceeds and will continue to exceed operational and regulatory capacity requirements.

IV. Conclusion.

Santa Cruz maintains an effective well evaluation program to identify wells that are suitable for inclusion in the potable production inventory. This process weeds out wells that are unsuitable for rehabilitation, and also ensure that production exceeds demand. This is a key element in regional planning. As detailed, the Glennwilde #2 well has been abandoned through ADWR. Rancho Mirage #2 is presently still being employed for agricultural purposes. Santa Cruz has identified and acquired direct substitutes for those wells, and indeed has identified 15,500 GPM of additional production to come on line by 2012. In addition, Santa Cruz substantially exceeds capacity requirements, and it is developing even more wells in the future. Thus, the production capacity proposed to be supplied by Rancho Mirage # 2 and Glennwilde # 2 will not be needed in the foreseeable future. Therefore, there is no reason not to accommodate MSIDD's continued use of Rancho Mirage # 2 for MSIDD's public purposes.

While Decision 67830 requires Santa Cruz to own specific wells, further analysis indicates there are more economical approaches to providing production. As a result, Santa Cruz requests an extension of time to December 31, 2012 to demonstrate ownership of Glennwilde #2 and Rancho Mirage #2.

⁵ Staff Report dated March 25, 2005 at 5.

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1 RESPECTFULLY SUBMITTED this 28th day of September 2007.

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